



## CITY OF LODI COUNCIL COMMUNICATION

**AGENDA TITLE:** Adopt resolution establishing an Electric Reserve Fund Policy (EUD)  
**MEETING DATE:** January 17, 2007  
**PREPARED BY:** Electric Utility Director

---

**RECOMMENDED ACTION:** Adopt a resolution establishing an Electric Reserve Fund Policy.

**BACKGROUND INFORMATION:** The City recently contracted with Navigant Consulting (Navigant) to perform a study to determine the prudent and appropriate level of cash reserves for the City's Electric Utility Department (EUD). In its work, Navigant considered local contingencies/probabilities, reviewed industry reserve practices and surveyed comparable California utilities.

Navigant recommended that EUD establish a minimum cash reserve level of \$12.9 million composed of the following elements:

- Operating Reserves -- \$8.2 million equal to 45 days of budgeted operating costs
- Capital Reserve -- \$500,000 roughly equal to the cost of largest distribution system contingency
- Rate Stabilization Fund -- \$4.2 million equal to 20% of annual market power costs

For information, EUD's available cash reserves at June 30, 2006 were \$3.6 million.

EUD recommends that the City Council establish a formal Electric Reserve Fund Policy. Elements of the policy are as follows:

1. An initial target Electric Reserve Fund balance of \$12.9 million is established (Electric Reserve Target Level). This amount shall vary over time and be comprised of (i) a working capital reserve equal to 45 days of budgeted electric operating costs, (ii) a capital reserve equal to the largest local distribution contingency, and (iii) a rate stabilization fund equal to 20% of EUD's estimated annual market power costs. This formula shall remain fixed unless and until revised by a subsequent City Council resolution.
2. The City Council endorses a program to increase cash reserves from the fiscal 2006-year end level of \$3.6 million to the Electric Reserve Target Level by not later than fiscal year end 2010.
3. During its annual budget process, EUD shall review its then current and projected cash reserve levels. If cash reserves are projected to be below the Electric Reserve Target Level at the end of the budget year, EUD shall highlight available opportunities to supplement cash levels during the budget year for consideration by the City Council during budget deliberations.
4. To increase cash reserves, staff shall consider all options including sale of surplus assets (i.e. inventory, equipment, real property), sale or "layoff" of underutilized power supply assets (i.e. generation, transmission), new programs to generate new revenues, special or general rate

---

APPROVED:

A handwritten signature in blue ink, appearing to read "Blair King", written over a horizontal line.

Blair King, City Manager

**Adopt resolution establishing an Electric Reserve Fund Policy (EUD)**

**January 17, 2007**

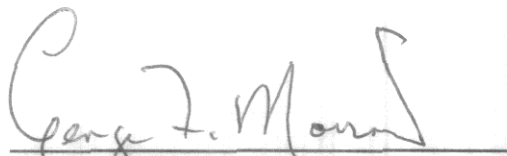
**Page 2 of 2**

increases, use of existing capital funds (subject to applicable covenants), and reductions in operating and/or capital expenses.

5. EUD shall perform an updated assessment of prudent cash reserve levels at a frequency no less than every three years and report same to the City Council.
6. In the event that EUD receives any one-time cash receipts (i.e. for sale of surplus property, etc.) and cash reserves are projected to be less than the Electric Reserve Target Level at fiscal year end, such receipts shall be dedicated to increasing cash reserves.

**FISCAL IMPACT:** No immediate fiscal impact is projected by the adoption of a formal Electric Reserve Fund Policy.

**FUNDING:** None at this time.

A handwritten signature in dark ink, appearing to read "George F. Morrow", is written over a horizontal line.

George F. Morrow  
Electric Utility Director

GFM/lst



## **Lodi Electric Utility**

# **Electric Reserve Fund Policy**

**City Council  
January 17, 2007**



# Background

- Navigant Consulting requested to document prudent Cash Reserve level for Lodi Electric Utility
- Adequate reserves important from operational and financial standpoints
- Establishment of Cash Reserve target is policy issue



# Consultant Recommendations

- Establish **Operating Reserve Fund** of 45 days of budgeted operating costs
- **Capital Reserve Fund** equal to largest local contingency
- **Rate Stabilization Fund** equal to 20% of projected market power costs





# Current vs. Recommended Reserve Levels

Fund Designation	Current Balances*	Recommended Minimum Balances	Shortfalls
45-Day Operating Reserve** NCPA General Operating Reserve	\$ 520,000 <u>\$3,165,000</u> <u>\$3,685,000</u>	\$ 8,200,000	\$ 4,515,000
Capital Reserve	-0-	\$ 500,000	\$ 500,000
Rate Stabilization Reserve	-0-	\$ 4,200,000	\$ 4,200,000
Total Cash on hand	\$3,685,000	\$ 12,900,000	\$ 9,215,000



# Electric Reserve Fund Policy

- Initial **Electric Reserve Fund Target** of \$12.9 million
- Goal to reach target by year-end FY2010
- EUD to highlight cash “raising” opportunities during budget process
- Reserve formula to be reassessed at least every 3 years
- One time cash receipts shall be dedicated to increasing reserves.
- Staff shall consider all options to increase reserves



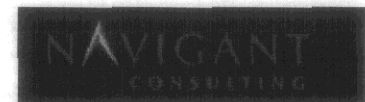
# Reserve Funding Options

- Sale of surplus assets (i.e. equipment, property)
- Sale or “layoff” of underutilized power supply assets (i.e. generation, transmission)
- New programs to raise revenues
- Special or general rate increases
- Use of available capital assets subject to covenants
- Reductions in operating and/or capital expenses





# Questions/comments?



RESOLUTION NO. 2007-13

A RESOLUTION OF THE LODI CITY  
COUNCIL ESTABLISHING AN ELECTRIC  
RESERVE FUND POLICY

=====

WHEREAS, the City of Lodi recently contracted with Navigant Consulting to perform a study to determine the prudent and appropriate level of cash reserves for the City's Electric Utility Department; and

WHEREAS, Navigant considered local contingencies/probabilities, reviewed industry reserve practices, and surveyed comparable California utilities; and

WHEREAS, Navigant recommends that the City of Lodi Electric Utility Department establish a minimum cash reserve level of \$12.9 million composed of the following elements:

- Operating Reserves – \$8.2 million equal to 45 days of budgeted operating costs.
- Capital Reserve – \$500,000 roughly equal to the cost of largest distribution system contingency.
- Rate Stabilization Fund – \$4.2 million equal to 20% of annual market power costs.

WHEREAS, the Electric Utility Department recommends that the City Council establish a formal Electric Reserve Fund Policy. Elements of the policy are as follows:

1. An initial target Electric Reserve Fund balance of \$12.9 million is established (Electric Reserve Target Level). This amount shall vary over time and be comprised of (1) a capital reserve equal to 45 days of budgeted electric operating costs, (2) a capital reserve equal to the largest local distribution contingency, and (3) a rate stabilization fund equal to 20% of the Electric Utility Department's estimated annual market power costs. This formula shall remain fixed unless and until revised by a subsequent City Council resolution.
2. The City Council endorses a program to increase cash reserves from the fiscal 2006 year-end level of \$3.6 million to the Electric Reserve Target Level by not later than fiscal year end 2010.
3. During its annual budget process, the Electric Utility Department shall review its then current and projected cash reserve levels. If cash reserves are projected to be below the Electric Reserve Target Level at the end of the budget year, the Electric Utility Department shall highlight available opportunities to supplement cash levels during the budget year for consideration by the City Council during budget deliberations.
4. To increase cash reserves, staff shall consider all options including sale of surplus assets (i.e. inventory, equipment, real property), sale or "layoff" of underutilized power supply assets (i.e. generation, transmission), new programs to generate new revenues, special or general rate increases, use of existing capital funds (subject to applicable covenants) and reductions in operating and/or capital expenses.

5. The Electric Utility Department shall perform an updated assessment of prudent cash reserve levels at a frequency no less than every three years and report same to the City Council.
6. In the event that the Electric Utility Department receives any one-time cash receipts (i.e. for sale of surplus property, etc.) and cash reserves are projected to be less than the Electric Reserve Target Level at fiscal year end, such receipts shall be dedicated to increasing cash reserves.

NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council does hereby establish and approve an Electric Reserve Fund Policy.

Dated: January 17, 2007

=====

I hereby certify that Resolution No. 2007-13 was passed and adopted by the City Council of the City of Lodi in a regular meeting held January 17, 2007, by the following vote:

AYES:	COUNCIL MEMBERS – Hitchcock, Katzakian, and Mayor Johnson
NOES:	COUNCIL MEMBERS – None
ABSENT:	COUNCIL MEMBERS – Hansen and Mounce
ABSTAIN:	COUNCIL MEMBERS – None



RANDI JOHL  
City Clerk